Joint Economic Committee
Republicans

Representative Kevin Brady
Vice Chairman

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Contact: Al Felzenberg
Office (202) 226-2490
Work Cellular (202) 695-5797

STATEMENT OF VICE CHAIRMAN KEVIN BRADY

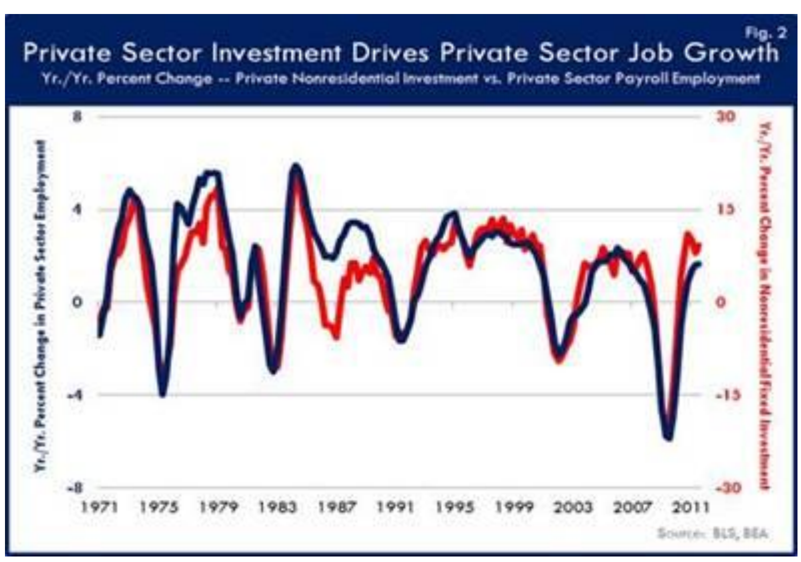
Could Tax Reform Boost Business Investment and Job Creation?

Washington, DC – There is no question that President Obama inherited a poor economy, but after three years his policies have made it worse. The massive stimulus failed to jumpstart the economy and restore consumer confidence as he promised. In fact, today there are 1.3 million fewer payroll jobs in America than when the first stimulus began. Now, 25 million Americans can't find a full-time job or any work at all. Hardworking taxpayers have paid a steep price in this Obama economy.

After exploding America's national debt in his first round of stimulus, the President now is out campaigning to raise income taxes on hardworking, successful Americans and local small business owners to pay for yet a second round of stimulus spending aimed at jobs in the government sector.

It's a basic principle of economics that if you want less of something "tax it more" and if you want more of something "tax it less" or not at all. Common sense tells us that Washington taking more of what investors earn will only reduce investment in new jobs, research, and expansions.

History proves that it's business investment in new buildings, equipment, and software that drives jobs along Main Street. One glance at the chart behind me – which tracks business investment and private-sector job creation for the past 40 years in America – clearly shows that job creation in America will not rebound unless private investment rebounds. While government spending in America is still above the level when the recession began, it is jobs and real business investment that have not recovered to their pre-recession levels more than two full years after the recession officially ended.



Putting Americans back to work - not taking more from small businesses and successful professionals - is the most effective way to grow federal revenues. Instead of increasing marginal tax rates, how about permanently lowering marginal rates to encourage business to invest and hire more workers? Or how about creating a 21st century tax code based on flatter rates and a territorial tax regime like our global competitors? Why not consider a transparent, straight forward retail sales tax that replaces the income, business, payroll, gift and death taxes and finally eliminates much of the complexity, burden and special interest provisions that comprise our current mess of tax laws.

If lower rates, for example, were accompanied by the removal of many of the complicated provisions that have been added to the tax code—often because marginal rates are so high—we would kick-start investment and job creation by the private sector while naturally generating additional tax revenue to lower future federal budget deficits. A consumption-based tax would do the same.

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Consider our high corporate tax rate and the requirement that U.S. companies pay that high rate when bringing home profits that were earned and taxed overseas. We should lower or remove that tax gate to allow an estimated $1 trillion in stranded profits overseas to flow back into America to fund new jobs, research, buildings, and expansions. It's a free-market stimulus that doesn't cost federal money – but rather generates it.

Many of my Democratic colleagues charge that lowering tax rates would favor the "rich." But nearly half of American families already pay no federal income tax and the top one percent of wage earners already shoulder nearly 40% of the income tax burden – the top ten percent over 70%. America already has one of the most progressive tax codes in the world and now the highest corporate tax rate among our global competitors. How much more should Washington take?

As for job creation, capital income is subject to multiple layers of taxation in the form of corporate income, dividend, and estate taxes. Business taxation is inordinately complex and imposes economic distortions and compliance costs that have no offsetting benefit to society whatsoever.

Yet, history proves that lowering the marginal tax rate on capital income increases business investment. In turn, more investment creates new private sector jobs. More investment means higher real wages for American workers. This happened in the 1960s and the 1980s and can happen again.

A common myth has arisen surrounding the so-called Buffett rule. But an analysis by my Joint Economic Committee staff of IRS taxpayer data prove President Obama's campaign assertions to be untrue: high-income Americans on average pay income tax rates three times higher than the middle class, more than 60 percent of their income is ordinary income not passive investment income, and the 400 highest income earners in America are not the same people year to year but a constantly changing set of taxpaying Americans.

That last point is important. For seventeen years – from 1992 to 2008 – the 400 highest income returns each year were comprised of 6,800 returns in total representing 3,672 different taxpayers. Of these taxpayers only one-quarter appeared more than once and only 15% appeared twice. In any given year, on average, about 39 percent of the top 400 adjusted gross income returns were filed by taxpayers that are not in any of the other 16 years – not any. Only four of the more than 3,000 taxpayers made the top 400 all 17 years.

That's because America is the land of opportunity. Anyone, anywhere, regardless of your birth or your station in life can earn your way into the wealthiest taxpayers in the nation. Mr. President, what's so wrong with that? Why are you intent on dividing our nation, pitting one American against another because of their success?

Americans who work hard and play by the rules want productive jobs and a fair shot at success. They do not want handouts, bailouts, stimulus or temporary make-work jobs. They understand that paying taxes is part of citizenship.

Americans should be able to find a good job and be able to make some contribution to the cost of the federal government. But for American workers to win in the global economy, American entrepreneurs must risk their capital to create the tools that American workers need to succeed.

If Washington is intent on growing the government rather than growing the economy and insists on taxing those hardworking taxpayers who supply the opportunities and the jobs at high rates, in the end it is American workers who will be worse off.

Today we have before us witnesses who are advocates of major tax reforms designed to generate revenue for the federal government with a minimum of economic interference and allowances for very low income families. What both ideas share is a commitment to reduce the after-tax cost to make job-creating, income-producing investments in the United States. And that is what the American economy needs to kick-start the engine of job creation.

I look forward to hearing the testimony of today's witnesses.

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